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FRS102/IAS19/IAS26 Glossary and FAQs

Barnett Waddingham LLP
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FRS102/IAS19/IAS26 Glossary and FAQs

The purpose of this note is to provide LGPS funds, fund employers and their advisers with some further explanatory details about the reports we produce in accordance with Financial Reporting Standard 102 (FRS102), International Accounting Standard 19 (IAS19) and International Accounting Standard 26 (IAS26).

It is divided into a [Glossary of terms](#) followed by some [Frequently asked questions \(FAQs\)](#). Where certain terms are explained in more detail in the glossary these are highlighted in **bold**.

If you have any questions please get in touch with the relevant LGPS fund in the first instance.

Background

This document complements a briefing note discussing assumptions and an indication of the likely trend in results issued as part of each accounting exercise. In contrast, this document describes the fundamentals of the accounting standards and is only expected to be updated occasionally (e.g. when the standards change).

Sponsors of defined benefit pension schemes are required to account for the cost of providing retirement benefits and reserve for any outstanding liabilities associated with the schemes they sponsor. They are also required to make certain disclosures about these schemes in the notes to their accounts.

FRS102, IAS19 and IAS26 are accounting standards that set out the accounting treatment for retirement benefits. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS102 applies. Companies with overseas parents may need to make disclosures under other standards. IAS26 applies for pension fund accounting.

A key feature of the standards is the requirement for liabilities to be valued using a discount rate assumption set with reference to yields on “high quality” corporate bonds.

It should be noted that the actual contribution rates required by employers for each fund are calculated every three years following a triennial actuarial valuation and these are calculated using assumptions set by the Fund Actuary. The discount rate assumption in particular is generally set with reference to expected future investment returns of the fund unlike the accounting standards which value the liabilities using solely the yields on corporate bonds. Therefore, the contribution rates paid by employers are not affected by the accounting results.



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Glossary of terms



Glossary of terms

Included in this section:

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- [Administration expenses](#)
- [Asset Ceiling](#)
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- [Settlement](#)
- [Special event](#)
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Actuarial gains & losses

The components of the actuarial gain or loss on assets are:

- the difference between the actual investment return on the assets over the year, and the interest on assets, plus
- an experience item, if applicable.

The components of the actuarial gain or loss on liabilities are:

- the effect on the value of liabilities of any change in financial assumptions (e.g. discount rate, assumed future inflation growth) from those used in the previous year, plus
- the effect on the value of liabilities of any change in demographic assumptions (e.g. mortality) from those used in the previous year, plus
- an experience item, if applicable.

For more details on experience items, please see the ["Gains and Losses"](#) section of the FAQs.

Administration expenses

Both accounting standards require the administration expenses to be recognised when the administration services are provided and to be reported as a separate item in the Profit and Loss (P&L) statement.

Note that this does not include expenses in relation to investment management as this is incorporated in the [Return on Fund](#) assets.

Asset ceiling

A restriction placed on the amount of accounting surplus which can be recognised.

The accounting standards state that if an employer has an accounting surplus, it should only be recognised to the extent that it is able to recover the surplus either through reduced contributions in the future, or through refunds. The present value of such economic benefits is commonly referred to as the "asset ceiling".

Allowing for an asset ceiling will reduce the value of the surplus disclosed at the accounting date. In certain circumstances, under IAS19 and where contributions towards a funding deficit are still required to be paid, the application of an asset ceiling can also affect those employers that have an accounting deficit.

Change in demographic assumptions

This shows the impact on the value of the liabilities of any changes in the demographic assumptions since the previous accounting date. More detail is given in the [Demographic assumptions](#) section.

The same demographic assumptions may be adopted between triennial funding valuations and so there may not be a change in demographic assumptions item each year.

The demographic assumption which is likely to have the most significant effect on the value of liabilities is the mortality assumption i.e. how long members will live. For example, when changes in mortality assumptions result in a decrease in the life expectancy of members this will result in a decrease in the value of liabilities. This is because the term that members are expected to live in retirement would be shorter so fewer benefits will be paid out.

Change in financial assumptions

This shows the impact on the value of the liabilities of any changes in the financial assumptions since the previous accounting date.

Financial assumptions reflect market conditions at the accounting date and so are likely to change each year.

The financial assumptions which have the most significant impact on the value of liabilities are the [discount rate](#) and the assumed rate of pension increases.

If the assumed discount rate is higher than at the previous accounting date this will result in a decrease in the value of liabilities and vice versa. Conversely, if the assumed rate of pension increases is higher than at the previous accounting date this will result in an increase in the value of liabilities and vice versa.

Contributions by employer including unfunded

This is the total value of the contributions paid by the employer to the fund including the normal contributions in respect of benefit accrual by active members, contributions towards any deficit and any early retirement strain contributions.

If [unfunded benefits](#) (usually pensions in payment) are facilitated by the Administering Authority and are to be included in the accounting report, then payments in respect of unfunded benefits are included here as well.

For more information on the inclusion of [unfunded benefits](#), please see the ["Do I need to include unfunded benefits on my balance sheet?"](#) section of the FAQs.

Current service cost

The **current service cost** represents the cost to the employer of the benefits earned by active members during the accounting period calculated on an FRS102/IAS19 basis. This is added to the liabilities and is not the same as the employer contributions paid to meet these 'new' benefits. It is calculated using assumptions at the start of the accounting period which means that it is not a fixed percentage of payroll and it is expected to vary from one accounting period to the next as assumptions change.

Under both standards this is a component of the **Service cost** in the P&L.

Curtailment

These will typically be the FRS102/IAS19 equivalent of early retirement costs. The actual strain payments to be paid by the employer to the fund are calculated by the administering authority using a different set of assumptions and so the curtailment cost under FRS102/IAS19 is unlikely to be the same as the strain contributions the employer pays.

In our calculations we calculate the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement only. The employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we only calculate the cost of curtailments which affect the employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately. Under both standards the curtailment cost is a component of the **Service cost** in the P&L.

Defined benefit obligation

This is also referred to as the past service liabilities. This is the value of the benefits accrued by all members to date, based on actuarial assumptions such as future increases to salaries, future mortality rates, future inflation rates etc.

Demographic assumptions

These are the assumptions used to generally provide estimates of the likelihood and timing of benefits and contributions being paid. This consists of all the non-financial assumptions used to value the liabilities including the mortality assumptions, (i.e. how long members are likely to live for), the rates of members retiring and the rate at which members exchange pension for cash at retirement.

Discount rate

Pensions and lump sums will be paid at some point in the future and so a rate known as the **discount rate** is used in order to express these expected future payments as a value at a present date.

It is analogous to a rate of interest; to illustrate this, if we put £100 into a savings account today, it is expected to grow with interest every year to become a higher amount in the future. Similarly, if we are aiming to have £100 at a future date then we only need to deposit a smaller amount now which will accumulate with interest to give £100 later.



A higher discount rate means that the future payments have a smaller value now i.e. a lower pension liability.

The accounting standards prescribe that the discount rate should be based on market yields at the reporting date of a 'high-quality corporate bond' of equivalent currency and term to the scheme liabilities. The discount rate can be derived using a number of different approaches. The current Barnett Waddingham approach is to use the Single Equivalent Discount Rate (SEDR) method.

Duration

When we talk about the duration of the liabilities we mean the average time to payment of benefits. We provide the Macaulay duration in the main accounting disclosure.

Further details of the approach used to estimate the duration please see the "[How is the employer duration calculated?](#)" section of the FAQs.

Interest cost

At the end of the accounting period the existing pension benefits are closer to payment than they were at the start of the accounting period, and so the value of the liabilities increases over the period with interest in line with the discount rate. This is the interest cost.

The interest cost forms part of the [net interest on defined liability](#) (in the P&L).

Interest on assets

The interest on assets item is calculated with reference to the [discount rate](#). This forms part of the [net interest on defined liability](#) (in the P&L).

Please note, if there was a restriction placed on the assets at the previous accounting date this will affect the calculation of the interest cost.

One of the most common questions we are asked by employers is how their asset amount has been calculated.

Go to the FAQ on [how are my assets calculated](#) to find out more.

Liabilities

These are also referred to as the [defined benefit obligation](#).

Net interest on defined liability

This is the [interest cost](#) on liabilities less the [interest on assets](#). The net interest on defined liability figure is a component of the P&L.

Past service cost

Additional benefits granted during the accounting year give rise to a [past service cost](#), for example, an employer decision to award additional service to a retiring employee.

Under both standards this is a component of the [service cost](#) in the P&L.

Remeasurements

Remeasurements are recognised in Other Comprehensive Income which is effectively the total of the [actuarial gains and losses](#) from the changes in the assets and liabilities over the accounting period. This will include the investment return on the assets in excess of interest, change in assumptions (financial and demographic) as well as any experience adjustments.

More detail about this is in the ["Gains and Losses"](#) section of the FAQs.

Return on assets less interest/ Return on Fund assets in excess of interest

This item is the investment return on fund assets above (or below) that which was assumed at the previous accounting date (or previous [special event](#) date if applicable). The investment return is net of investment management expenses and is provided in the 'Assets' section of your report. Under IAS19 and FRS102 the interest/assumed return on assets is the discount rate assumed at the previous accounting date or special event date.



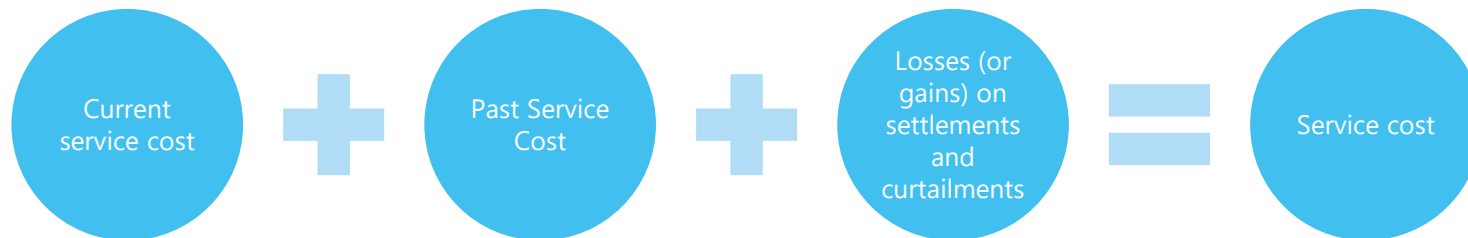
If the return on fund assets is lower than the discount rate this will result in an actuarial loss.

The magnitude of this item will be dependent on how much the actual return on Fund assets differs from the discount rate at the previous accounting date or special event date.

Service cost

The service cost is made of three key components:

- [Current service cost](#); plus
- [Past service cost](#); plus
- Losses (or gains) on [settlements](#) and [curtailments](#).



Settlement

A settlement will generally occur where there is a bulk transfer of members in to or out of the Fund or an employer's share of the Fund. The settlement loss or gain reflects the difference between the transferred asset share, and the value of the transferred liabilities when calculated on an FRS102/IAS19 basis. This value may be different when compared to figures calculated for non-accounting purposes due to different assumptions being used. Under both standards this is a component of the [Service cost](#) in the P&L.

Special event

Under the IAS19 standard, when determining any past service cost or gain or loss on [settlement](#) or [curtailment](#), the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. However, IAS19 notes that the extra [remeasurement](#) at the event date does not need to be applied where the application of that remeasurement is immaterial.

Where a remeasurement approach is required, we refer to this as a special event. Where an event is included but does not require the remeasurement approach, it is not a special event.

Unfunded benefits

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years (CAY) pensions. Such benefits are usually charged to the employer as they are paid. Other unfunded benefits include gratuities and enhanced teachers' pensions which are recharged to the employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the employer has responsibility for funding by paying contributions to the Fund.



Frequently Asked Questions (FAQs)



Frequently asked questions (FAQs)

Included in this section:

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- [What is the impact of the Lloyds judgment on past transfer values?](#)
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- [Does the McCloud judgment have any impact on LGPS liabilities?](#)
- [Does the outcome of the Goodwin case have any impact on LGPS liabilities?](#)

Miscellaneous

- [Is the projected unit method being used?](#)
- [How are investment expenses allowed for?](#)
- [What checks are carried out on the data underlying the calculations?](#)
- [How is the employer duration calculated?](#)
- [What commutation factor is used in the calculations?](#)

If there are any questions that do not appear on this list, please get in touch with the Fund in the first instance.

Balance sheet

How are my assets calculated?

Notional assets

Assets are not separately held for each employer; each fund holds assets in respect of all the employers in the fund and each employer has a notional share of these assets. For example, the contributions an employer makes into the fund are not paid into a separate employer account and invested independently, but are paid into the whole fund along with all other employers' contributions and invested as a whole. However, they are taken into account when calculating a notional asset figure for actuarial valuations and employer work.

Asset calculation – actuarial valuations

Assets are fully re-apportioned at each triennial funding valuation. To do this for an employer, we accumulate the employer's notional market value of assets from the previous funding valuation, allowing for the Fund's actual returns and cashflows in respect of the employer which include employer and employee contributions, pensions and retirement lump sums paid, and transfers in and out etc. In general, cashflows are assumed to occur halfway through the year. We also allow for any notional asset transfers which may occur between employers when members transfer between employers in the Fund.

We also adjust the assets by a smoothing factor to be consistent with our measurement of the liabilities. We essentially look at the asset value over each day for the six month period around the valuation date (based on published market indices) and take the average.

Asset calculation – accounting valuations

In order to calculate asset values for accounting valuations, the starting point is the most recent funding valuation and the process is then similar to the above but may involve approximations. For example, if the fund's actual returns have not yet been calculated for any period, we will calculate the notional return based on suitable market indices.

The assets will change from year to year: increasing with contributions paid into the fund and decreasing as benefits (such as lump sums and pensions) are paid out of the fund. Investment returns will have an additional positive or negative effect.

Thus, the employer's asset share is not a fixed percentage of the fund and is expected to vary over time.

We use the market value of assets for FRS102 and IAS19 calculations therefore no smoothing factor is applied.

There may be a restriction placed on the assets recognisable in the Employer's accounts if an [asset ceiling](#) has been considered.

Auditor views

Auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date.

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we may use details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

What is the Defined Benefit Obligation and how is this calculated?

The Defined Benefit Obligation is the accounting label for what is usually known as the value of the pension liabilities of the employer. The pension liabilities for an employer are the promised benefit payments (e.g. pensions, lump sums) due in the future from the fund to its members. The Defined Benefit Obligation is the value of these liabilities calculated using a set of assumptions on an FRS102/IAS19 basis, which includes how these payments will increase over time, how long they will be paid out for (i.e. how long each member is likely to live for) and the [discount rate](#) to apply to them to give a current value.

The Defined Benefit Obligation depends on the amount of the benefits so will increase as benefits are accrued and reduce as benefits are paid out. The value will also increase or decrease as the assumptions used to calculate their value change.

Do I need to include unfunded benefits on my balance sheet?

The payment of [unfunded benefits](#) may be facilitated by the Administering Authority and recharged to the employer.

FRS102 and IAS19 both state that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retired and was awarded [unfunded benefits](#) the value of all future payments should have been taken into account at the point of retirement. This value would generally be expected to reduce over time as the benefits are paid out.

If you have unfunded benefits which are to be included in the accounting figures that we prepare, then you should make us aware of these.

Why have my numbers changed since the last accounting date?

The figures in the accounting disclosures are expected to change from one accounting period to the next. Some figures may be expected to be broadly consistent, however, many figures are unrelated year on year. Guidance on differences that can be expected are set out in the tables below. These tables replicate the reconciliation tables that are disclosed in our reports.

Liability reconciliation items

Factors causing difference in value compared to equivalent item at previous accounting date

Opening defined benefit obligation

Current service cost	<ul style="list-style-type: none"> varies with active member payroll changes in financial assumptions (at start of accounting period)
Interest cost	<ul style="list-style-type: none"> change in discount rate assumption (at start of accounting period) varies with size of defined benefit obligation
Change in financial assumptions	<ul style="list-style-type: none"> not comparable with value at previous accounting date depends on extent of change in financial assumptions at last accounting date vs current accounting date
Change in demographic assumptions	<ul style="list-style-type: none"> not comparable with value at previous accounting date depends on extent of change in demographic assumptions at last accounting date vs current accounting date
Experience loss/(gain) on defined benefit obligation	<ul style="list-style-type: none"> not comparable with value at previous accounting date depends on how actual experience incorporated compares with previous assumptions
Liabilities assumed / (extinguished) on settlements	<ul style="list-style-type: none"> not comparable with value at previous accounting date depends on settlement events
Estimated benefits paid net of transfers in	<ul style="list-style-type: none"> not necessarily comparable with previous accounting date as includes one off cashflows (such as retirement lump sums)
Past service costs, including curtailments	<ul style="list-style-type: none"> not comparable with value at previous accounting date depends on past service costs and curtailment events
Contributions by Scheme participants and other employers	<ul style="list-style-type: none"> varies with active member payroll
Unfunded pension payments	<ul style="list-style-type: none"> changes in unfunded benefits paid

Closing defined benefit obligation

Asset reconciliation items

Factors causing difference in value compared to equivalent item at previous accounting date

Opening fair value of Fund assets

Interest on assets	<ul style="list-style-type: none"> • change in discount rate assumption (at start of accounting period) • varies with size of fair value of Fund assets
Return on assets less interest	<ul style="list-style-type: none"> • not comparable with value at previous accounting date • depends on Fund return over accounting period and interest on assets
Other actuarial gains/(losses)	<ul style="list-style-type: none"> • not comparable with value at previous accounting date • depends on how actual experience incorporated compares with previous assumptions
Administration expenses	<ul style="list-style-type: none"> • varies with size of fair value of Fund assets • depends on fund's level of administration expenses
Contributions by employer including unfunded	<ul style="list-style-type: none"> • varies with active member payroll and unfunded benefits paid • depends on additional one off contributions
Contributions by Scheme participants and other employers	<ul style="list-style-type: none"> • varies with active member payroll
Estimated benefits paid plus unfunded net of transfers in	<ul style="list-style-type: none"> • not necessarily comparable with previous accounting date as includes one off cashflows (such as retirement lump sums)
Settlement prices received / (paid)	<ul style="list-style-type: none"> • not comparable with value at previous accounting date • depends on settlement events

Closing Fair value of Fund assets

How is an asset ceiling calculated and should I allow for it?

The accounting standards require that the amount of surplus that can be recognised should reflect the extent to which the employer is able to recover that surplus either through reduced contributions in the future, or through refunds.

Barnett Waddingham's view is that, in general, employers in the LGPS do not have an unconditional right to a refund of surplus as such a payment would be at the discretion of the relevant LGPS fund. Therefore, our default approach is to allow for an **asset ceiling** and to restrict any surplus to the economic benefit that may be obtained from potential future reductions in contributions. In line with our interpretation of IFRIC 14 *"The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"*, we will calculate this by considering the assumed future cost of benefits payable over the expected life of the employer in the fund, less the value of contributions expected to be paid towards those future benefits.

Some employers may be expected to participate in the fund indefinitely, in which case we will carry out our calculations assuming that these costs and contributions apply in perpetuity. Other employers may be expected to participate for a finite period, in which case we will consider a shorter period, such as the relevant contract length or the average time until the last active member leaves service thereby triggering a cessation event.

For employers accounting under IAS19, additional liabilities may be recognised if the employer is required to pay contributions towards a funding deficit, as such contributions may contribute an additional surplus which cannot in fact be recovered. We will consider such contributions payable over the period of the existing deficit recovery plan. Under certain circumstances, this can also affect employers who have an accounting deficit, if payment of deficit contributions is expected to lead to an irrecoverable surplus arising.

We consider the above treatment to be in line with guidance issued by The Chartered Institute of Public Finance & Accountancy (CIPFA) in November 2023. Whilst this guidance was prepared specifically for local authorities, we believe it is reasonable to have regard to the general principles contained within it.

This is a highly complex topic and different interpretations of the accounting standards, including their accompanying guidance, are available. The decision as to whether to allow for an asset ceiling, and the method used to calculate it, is ultimately the responsibility of the employer and so it may be advisable to speak to your auditor if further clarification of the required approach is needed.

Assumptions

What is the difference between assumptions for a funding valuation and an accounting valuation?

The purpose of a funding valuation is to set the contributions payable by employers, and these are typically based on a set of ongoing assumptions. An accounting valuation on the other hand is prepared to meet statutory disclosure requirements and is included in the employer's annual accounts. Therefore, the purposes are different. The results from the two valuation types can be significantly different due to the different assumptions used.

The assumptions adopted for a funding valuation are set by the Fund Actuary following discussion with the administering authority. Broadly, they are set with reference to the long-term expected cost of providing LGPS benefits and take into account the investment strategy of the fund and the expected return on each asset class that the fund invests in. In contrast, FRS102 and IAS19 are fairly prescriptive accounting standards which aim to allow employers' pension obligations to be compared with each other.

Generally, the demographic assumptions used for both valuations are the same and determined every three years as part of the triennial funding valuation. However, updates may be made between funding valuations to reflect the latest industry views on future mortality rates.

The main area where funding valuations for our funds and accounting valuations differ is in the derivation of the [discount rate](#). For funding valuations, the discount rate adopted is based on the expected investment return of the assets actually held by the fund. For FRS102/IAS19, the discount rate is required to be determined with reference to the market yield on 'high quality' corporate bonds and with consideration of the [duration](#) of the employer's liabilities.

Generally, corporate bond yields will be different from the return assumed for a funding valuation as the fund is likely to invest in a mixture of assets including equities and property. Therefore we would expect that employers' costs and liabilities under FRS102/IAS19 will be different from those calculated in a funding valuation as the [discount rate](#) used is different.

It is important to note that the accounting position has no bearing on the contributions that the employers actually pay into the fund. Contribution rates are set every three years as part of the triennial valuation.

Why is the inflation assumption different to current inflation levels?

The current level of inflation that is widely reported each month is a measure of how prices have increased in the recent past, usually over the last year. However, in order to project cashflows to and from the fund over the future lifetime of the fund, we are interested in what inflation will do in the future and therefore we have to make an assumption about expected future levels of inflation over the long term. We do this by using information published by the Bank of England.

How much scope is there for 'tweaking' the assumptions?

One of the objectives of FRS102 and IAS19 is to ensure that organisations all account for pension costs on a consistent market-related basis so there is not intended to be a huge amount of scope to deviate away from typical market assumptions. We do provide a recommended set of assumptions but the employer is ultimately responsible for the assumptions that are adopted.

One key area in which the employer can exercise more control is the assumption about future levels of pay increases as they will have more knowledge of likely future pay awards for their staff.

If you would like more information on the options available to employers regarding bespoke assumptions please get in touch with your LGPS fund.

Pension costs

How are settlements/curtailments/past service costs treated under IAS19?

The IAS19 standard requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019.

Common events for LGPS employers that this amendment may apply to include outsourcings, academy conversions and unreduced early retirements.

The [remeasurement](#) requirement complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra [remeasurement](#) does not need to be applied where the application of that [remeasurement](#) is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not. If relevant, the employer should also consider any guidance in relation to this set out by The Chartered Institute of Public Finance & Accountancy (CIPFA) in its most recent *Code of Practice on Local Authority Accounting in the United Kingdom*.

Why is the current service cost different from the contributions paid?

Contributions are required from the employer to meet the cost of the benefits being earned by current employees, and to pay off any past service deficit. Minimum contributions are certified when a new employer joins the Fund and then again at each triennial funding valuation. These certified contributions are calculated using assumptions made at each funding valuation and reflect, amongst other things, the return assumed to be earned by the assets actually held by the Fund.

The **current service cost** in FRS102/IAS19 only includes the employer cost of benefits being earned by current employees and does not include the cost of paying off any past service deficit. The assumptions used for FRS102/IAS19 are usually different to those used for the funding valuation. In particular, the **discount rate** is prescribed by FRS102/IAS19 and is unlikely to reflect the Fund's actual asset allocation. This means the **current service cost** calculated for FRS102/IAS19 is likely to be different from the cost covered by the certified minimum contributions.

Why is the current service cost different from the previous year?

The current service cost is the cost of benefits accrued over the period based on the assumptions at the start of the period i.e. the assumptions at the previous accounting date or the most recent **special event** date.

Therefore this will be affected by:

- the difference in the assumptions adopted at the previous accounting date (and any **special event** dates) compared to the assumptions adopted for calculating the previous accounting date's current service cost; and
- the change in payroll over the accounting period compared to that over the previous accounting period.

What if the reported contributions paid are different to the actual contributions paid?

The discrepancy may be because full cashflows for the accounting period were not available for the report, and therefore they were estimated based on part-year cashflows. We can revise the disclosure to take account of the actual contributions paid but we recommend that you agree with your auditor that this is necessary on the grounds of materiality.

Gains and losses

What is an experience gain or loss?

Accounting reports are prepared each year using a number of estimates and approximations in the roll-forward process on both the assets and the liabilities. This experience adjustment is essentially a correction of the estimates made in previous accounting reports.

Employers are likely to see an experience item in an accounting report prepared following a full membership valuation, such as a triennial funding valuation, to allow for actual experience such as pension increases, member movements and mortality.

What does actual less expected return on Fund assets mean?

The “expected” return on the Fund assets for a year is simply based on the [discount rate](#) assumption at the start of the period (or the last special event date). If actual Fund returns, net of investment management expenses, have been higher than the [discount rate](#) assumption this figure will be positive but if they were lower this will be negative.

Why is there an experience gain or loss on the assets?

To determine the employer asset share for an accounting report we may need to estimate various pieces of financial information, including cashflow information such as contributions received, benefits paid and fund returns. However, at a triennial funding valuation we get full cashflow data for each year and actual audited Fund returns. We then determine each employer’s asset share accurately at the triennial valuation date and the experience item emerges as the difference between the three years’ worth of estimated rolled-forward assets and the accurate figure. There may also be differences between the accounting and funding valuation asset figures due to allowance for any transfers or outsourcings that may not have been resolved in time to be included in the relevant accounting years, or due to a rebalancing of employer assets within a funding pool.

Why is there an experience gain or loss on the liabilities?

To determine the value of the employer liabilities for an accounting report we roll forward the results from the most recent funding valuation, using the financial and demographic assumptions set for accounting purposes.

After each triennial valuation we recalculate the accounting liabilities using up to date membership data and results. An experience item emerges which reflects the difference between the actual experience of the members of the Fund and what was assumed for them in the previous accounting reports. For example, if members died earlier than assumed this will result in an [actuarial gain](#) as the liabilities will be lower than estimated in the roll forward, or if members received higher than assumed salary increases then there will be an [actuarial loss](#) as the liabilities will be higher than estimated.

Experience gains or losses may also arise each year due to other experience updates. For example, employers may choose to allow for inflation experience each year. This would result in an experience gain or loss depending on how pension increase experience compared with what was assumed at previous accounting dates.

What is the change in assumptions?

This is a combination of the impact on the value of the liabilities due to any changes in the financial and demographic assumptions since the previous accounting date.

See the [change in demographic assumptions](#) and [change in financial assumptions](#) sections above for more detail.

Regulatory

What is the Virgin Media case and how does it affect the LGPS?

The 'Virgin Media' case refers to the High Court case of Virgin Media vs NTL Pension Trustees II Limited. The court considered if a change to the scheme rules was unlawful. The grounds for the invalidation of the changes were that a 'Section 37' certificate was not obtained from the Scheme Actuary at the time when the changes were made to the Scheme. The judge ruled in favour of the changes to scheme rules being invalid.

For more information on the Virgin Media case, please see our blog [here](#).

For the LGPS, the Scheme Actuary is the Government Actuary's Department (GAD). We understand that GAD is currently reviewing historic amendments to the LGPS in this context and the Scheme Advisory Board are liaising with GAD on whether the relevant certificates were available for past scheme changes. The most recent LGPC Bulletin 253 - July 2024 states that the LGA understands the appeal ruling applies to the LGPS and that HM Treasury is currently assessing the implications for all public service pension schemes.

[LGPC Bulletin 257](#) provides a view from HM Treasury that the relevant amendments in the LGPS would have been made by legislation – and therefore would remain valid until revoked or repealed by subsequent legislation, or declared void by a court. However, HM Treasury are still assessing the implications for all public service schemes.

Our view is that at this point in time there remains insufficient information to assess the potential impact, so we are unable to quantify it. However, employers may wish to include a narrative disclosure in their accounts to reflect the current position as outlined above.

Further information on the audit considerations can be found in the ICAEW's help sheet from 13 February 2025 [here](#).

What is the impact of the Lloyds judgment on past transfer values?

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and MHCLG on this.

What is the impact of the recent GMP indexation consultation response?

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found [here](#).

For details on our standard assumption for GMP, please see the latest briefing note.

Does the McCloud/Sargeant judgment have any impact on LGPS liabilities?

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

Regulations in respect of the McCloud and Sargeant judgements came into force on 1 October 2023. These may affect the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report. An allowance for the McCloud remedy will have been made in the liabilities which is consistent with the method adopted at the last actuarial valuation.

Does the outcome of the Goodwin case have any impact on LGPS liabilities?

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have [confirmed](#) that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

We do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in most cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

At the time of producing this document, we do not yet have the results of GAD's review. However, it is our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. It is possible that the impact on individual employers will vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

Miscellaneous

Is the projected unit method being used?

Yes

How are investment expenses allowed for?

Investment expenses are included in the estimated [Return on Fund](#) assets. Therefore, the 'Return on assets less interest' element of the asset reconciliation includes allowance for investment expenses.

Investment expenses are not included in 'Administration expenses' and are therefore not contained within in the Profit and Loss statement, however, as they are included in the 'Return on assets less interest', investment expenses are included in the Remeasurements in other comprehensive income.

What checks are carried out on the data underlying the liability calculations?

One of the key items of data underlying our calculations is the member data used for the starting point of the liability roll forward. The member data is generally that from the most recent funding valuation and therefore has been passed through a rigorous data checking process as part of the valuation. As the member data has been sufficiently cleansed for the purpose of the funding valuation, we believe it is also reasonable for the purpose of the accounting roll forward. The key checks carried out on the data include:

- Consistency of static member data items (such as sex and date of birth) to previous valuation
- Consistency of changeable member data items to previous valuation. For example:
 - Reasonable change in salary for active members
 - Reasonable level of accrual for active members
 - Deferred and pensioner member pensions have increased as expected based on LGPS pension increases
- Reconciliation of employer membership to ensure that all previous members are accounted for (or no longer in the data as expected) and new members look reasonable.

How is the employer's duration calculated?

The employer's duration is estimated using the Macaulay duration and this is calculated using membership data from the latest triennial valuation.

The employer duration is recalculated at the accounting date to reflect the financial assumptions at the accounting date, using the data from the latest triennial valuation.

What commutation factor is used in the calculations?

A commutation factor of 12 is adopted for our calculations in line with the benefit structure set out in the LGPS Regulations.